BOOK - 2

COMMERCE

1. Which of the following is not an International Financial Institution?

   (A) ICICI (B) IMF (C) IDA (D) World Bank

Ans. (A) ICICI

2. Foreign equity includes –

   (A) ADR (B) Rupee (C) Gold (D) Bond

Ans. (A) ADR

3. Social responsibility of business assumes considerable importance towards:

   (A) Owners and workers (B) Consumers and community

   (C) Government and nation (D) All of the above

Ans. (D) All of the above

4. Depreciation in spirit is similar to -

   (A) Depletion (B) Amortization (C) Depression (D) None of these

Ans. (B) Amortization

5. Books of original entry are called –

   (A) Ledger (B) Work sheets (C) Journal (D) All of the above

Ans. (C) Journal

6. Quick assets include which of the following –

   (A) Cash (B) Accounts Receivable

   (C) Inventories (D) Only (A) and (B)

Ans. (D) Only (A) and (B)

7. Net income plus operating expenses is equal to –

   (A) Net sales (B) Cost of goods available for sale

   (C) Cost of goods sold (D) Gross Profit

Ans. (D) Gross Profit

8. Depreciation is based on –

   (A) Economic life of asset (B) Declared life of asset by supplier

   (C) Normal life of asset (D) None of these

Ans. (A) Economic life of asset

9. Random sampling in auditing means –

   (A) Selection through scientific sampling approach

(B) Selection through convenience sampling

(C) None of these (D) (A) & (B) both

Ans. (A) Selection through a scientific sampling approach

10. Acid test is the same as –

(A) Quick test (B) Liquid test (C) None of these (D) (A) & (B) both

Ans. (A) Quick test

11. The discount account is a –

(A) Personal account (B) Real account

(C) Asset account (D) Nominal account

Ans. (D) Nominal account

12. Those liabilities which arise only on the happening of some event are called –

(A) Current Liabilities (B) Outstanding liabilities

(C) Contingent liabilities (D) Fixed liabilities

Ans. (C) Contingent liabilities

13. Marshalling of the balance sheet means –

(A) The ordering of its assets and liabilities

(B) The totaling of its assets and liabilities

(C) Excess of assets over liabilities

(D) None of these

Ans. (A) The ordering of its assets and liabilities

14. In the current ratio 2: 1, 2 indicates –

(A) Current assets (B) Current liabilities

(C) Stock (D) Cash

Ans. (A) Current assets

15. In accounting, Recording is done in –

(A) Trading A/c. (B) Journal

(C) Balance Sheet (D) All of these

Ans. (B) Journal

16. Personal Account is –

(A) Laxmi A/c. (B) Goodwill A/c. (C) Salary A/c. (D) Wages A/c

Ans. (A) Laxmi A/c.

17. Nominal A/c. is –

(A) Wages A/c. (B) Patent A/c. (C) Prepaid A/c. (D) All of these

Ans. (A) Wages A/c.

18. Minority interest is related –

(A) Holding Co. (B) Merger (C) Partnership (D) Ratio

Ans. (A) Holding Co.

19. Current liabilities is –

(A) B/P (B) Creditors (C) Bank overdraft (D) All of these

Ans. (D) All of these

20. Which of the following is the correct sequence for preparing final accounts?

(A) Ledger – Trial Balance – Journal – Profit & Loss Account – Balance Sheet

(B) Journal – Ledger – Trial Balance – Profit & Loss Account – Balance Sheet

(C) Trial Balance – Ledger – Journal – Balance Sheet – Profit & Loss Account

(D) Journal – Trial Balance – Ledger – Profit & Loss Account – Balance Sheet.

Ans. (B) Journal – Ledger – Trial Balance – Profit & Loss Account – Balance Sheet

21. Error due to wrong allocation expenditure between capital and revenue is regarded as–

(A) Error of omission (B) Error of principle

(C) Compensation errors (D) None of these

Ans. (B) Error of Principle

22. Profit from the re-issue of forfeited shares should be transferred to –

(A) Profit and Loss Account (B) General reserve

(C) Share premium account (D) Capital reserve account

Ans. (D) Capital reserve account

23. The current assets to current liabilities ratio is said to be satisfactory if it is –

(A) 1: 2 (B) 2: 1 (C) 1: 1 (D) 1.5: 1

Ans. (B) 2: 1

24. The balance left in the capital accounts on the dissolution of a firm is transferred to –

(A) Realisation Account (B) Profit and Loss Account

(C) Bank Account (D) None of the above

Ans. (C) Bank Account

25. Dividends can be paid generally out of –

(A) Share premium account (B) Capital redemption reserve account

(C) Current years profits (D) All of these

Ans. (C) Current years profits

26. Management in marketing is associated with –

(A) R.L.King (B) Taylor (C) Planning (D) Control

Ans. (B) Taylor

27. Which of these is an HR Model?

(A) The Guest Model (B) Open–System Theory

(C) Mc Gregor's theory X and theory Y (D) None of the above

Ans. (A) Guest Model

28. The two researchers Hendry and Pettigrew belonged to which institute?

(A) Warwick University (B) Harvard University

(C) Cambridge University (D) Stanford University

Ans. (A) Warwick University

29. Which is the non-personal presentation?

(A) Advertising (B) Market (C) Research (D) Sale

Ans. (A) Advertising

30. Classical conditioning is associated with –

(A) Repetition (B) Generalisation (C) Discrimination (D) All of these

Ans. (A) Repetition

31. The only feasible purpose of financial management is—

(A) Wealth Maximization (B) Sales Maximization

(C) Profit Maximization (D) Assets maximization

Ans. (A) Wealth Maximization

32. Financial management process deals with —

(A) Investments (B) Financing decisions

(C) Both (A) and (B) (D) None of the above

Ans. (B) Financing decisions

33. Agency cost consists of—

(A) Binding (B) Monitoring

(C) Opportunity and structure cost (D) All of the above

Ans. (D) All of the above

34. Finance Function comprises —

(A) Safe custody of funds only (B) Expenditure of funds only

(C) Procurement of finance only (D) Procurement & effective use of funds

Ans. (D) Procurement & effective use of funds

35. The objective of wealth maximization takes into account—

(A) Amount of returns expected (B) Timing of anticipated returns

(C) Risk associated with the uncertainty of returns

(D) All of the above

Ans. (D) All of the above

36. Financial management mainly focuses on—

(A) Efficient management of every business

(B) Brand dimension

(C) Arrangement of funds

(D) All elements of acquiring and using means of financial resources for financial activities

Ans. (D) All elements of acquiring and using means of financial resources for financial activities

37. Time value of money indicates that—

(A) A unit of money obtained today is worth more than a unit of money obtained in future

(B) A unit of money obtained today is worth less than a unit of money obtained in future

(C) There is no difference in the value of money obtained today and tomorrow

(D) None of the above

Ans. (A) A unit of money obtained today is worth more than a unit of money obtained in future

38. Time value of money supports the comparison of cash flows recorded at different time periods by—

(A) Discounting all cash flows to a common point of time

(B) Compounding all cash flows to a common point of time

(C) Using either (A) or (B)

(D) None of the above

Ans. (C) Using either (A) or (B)

39. If the nominal rate of interest is 10% per annum and there is quarterly compounding, the effective rate of interest will be—

(A) 10% per annum

(B) 10.10 per annum

(C) 10.25% per annum

(D) 10.38% per annum

Ans. (D) 10.38% per annum

40. Relationship between annual nominal rate of interest and annual effective rate of interest, if the frequency of compounding is greater than one—

(A) Effective rate > Nominal rate

(B) Effective rate < Nominal rate

(C) Effective rate = Nominal rate

(D) None of the above

Ans. **(A) Effective rate > Nominal rate**

41. Mr X takes a loan of ₹ 50,000 from HDFC Bank. The rate of interest is 10% per annum. The first instalment will be paid at the end of year 5. Determine the amount of equal annual instalments if Mr. X wishes to repay the amount in five instalments.

(A) ₹ 19500 (B) ₹19400 (C) ₹19310 (D) None of the above

Ans. **(C) ₹19310**

42. If the nominal rate of return is 10% per annum and the annual effective rate of interest is 10.25% per annum, determine the frequency of compounding :

(A) 1 (B) 2 (C) 3 (D) None of the above

Ans. **(B) 2**

43. Heterogeneous cash flows can be made comparable by—

(A) Discounting technique (B) Compounding technique

(C) Either (A) or (B) (D) None of the above

Ans. **(C) Either (A) or (B)**

44. Risk of two securities with different expected returns can be compared with—

(A) Coefficient of variation (B) Standard deviation of securities

(C) Variance of Securities (D) None of the above

Ans. **(A) Coefficient of variation**

45. A portfolio having two risky securities can be turned risk less if—

(A) The securities are completely positively correlated

(B) If the correlation ranges between zero and one

(C) The securities are completely negatively correlated

(D) None of the above

Ans. **(C) The securities are completely negatively correlated**

46. Efficient frontier comprises of—

(A) Portfolios that have negatively correlated securities

(B) Portfolios that have positively correlated securities

(C) Inefficient portfolios

(D) Efficient portfolios

Ans. **(D) Efficient portfolios**

47. Efficient portfolios can be defined as those portfolios which for a given level of risk provides—

(A) Maximum return (B) Average return

(C) Minimum return (D) None of the above

Ans. (A) Maximum return

48. Capital market line is—

(A) Capital allocation line of a market portfolio

(B) Capital allocation line of a risk-free asset

(C) Both (A) and (B)

(D) None of the above

Ans. (B) Capital allocation line of a risk-free asset

49. CAPM accounts for—

(A) Unsystematic risk (B) Systematic risk

(C) Both (A) and (B) (D) None of the above

Ans. (B) Systematic risk

50. The point of tangency between risk-return indifferences curves and efficient frontier highlights—

(A) Optimal portfolio (B) Efficient portfolio

(C) Sub-optimal portfolio (D) None of the above

Ans. (A) Optimal portfolio

51. A portfolio comprises two securities with expected return of 12% and 16% respectively. Determine the return of the portfolio if the first security constitutes 40% of the total portfolio.

(A) 12.4% (B) 13.4% (C) 14.4% (D) 15.4%

Ans. (C) 14.4%

52. The value of a bond and debenture is—

(A) Present value of interest payments it gets

(B) Present value of contractual payments it gets till maturity

(C) Present value of redemption amount

(D) None of the above

Ans. (B) Present value of contractual payments it gets till maturity

53. Required rate of return > Coupon rate, the bond will be valued at—

(A) Premium (B) Par value

(C) Discount (D) None of the above

Ans. (C) Discount

54. If the coupon rate is constant, the value of bone when close to maturity will be—

(A) Issued value (B) Par value

(C) Redemption value (D) All of the above

Ans. **(C) Redemption value**

55. A bond is said to be issued at premium when—

(A) Coupon rate > Required returns
(B) Coupon rate = Required returns
(C) Coupon rate
(D) None of the above

Ans. **(A) Coupon rate > Required returns**

56. When the concept of ratio is defined in respected to the items shown in the financial statements, it is termed as—

(A) Accounting ratio
(B) Financial ratio
(C) Costing ratio
(D) None of the above

Ans. **(A) Accounting ratio**

57. The definition, "The term accounting ratio is used to describe significant relationship which exists between figures shown in a balance sheet, in a profit and loss account, in a budgetary control system or in any part of the accounting organization" is given by—

(A) Biramn and Dribin
(B) Lord Keynes
(C) J. Betty
(D) None of the above

Ans. **(C) J. Betty**

58. The relationship between two financial variables can be expressed in—

(A) Pure ratio
(B) Percentage
(C) Rate or time
(D) Either of the above

Ans. **(D) Either of the above**

59. Liquidity ratios are expressed in

(A) Pure ratio form
(B) Percentage
(C) Rate or time
(D) None of the above

Ans. **(A) Pure ratio form**

60. Which of the following statements are true about Ratio Analysis?

(I) Ratio analysis is useful in financial analysis.
(II) Ratio analysis is helpful in communication and coordination
(III) Ratio Analysis is not helpful in identifying weak spots of the business.
(IV) Ratio Analysis is helpful in financial planning and forecasting.

(A) I, II and IV
(B) I, HI and IV
(C) I, II and III
(D) I, II, HL IV

Ans. **(A) I, II and IV**

61. Profit for the objective of calculating a ratio may be taken as—

(A) Profit before tax but after interest
(B) Profit before interest and tax

(C) Profit after interest and tax (D) All of the above

Ans. (D) All of the above

62. Which of the following are the limitations of ratio analysis?

(i) Ratio analysis may result in false results if variations in price levels are not considered.

(ii) Ratio analysis ignores qualitative factors

(iii) Ratio Analysis ignores quantitative factors

(iv) Ratio Analysis is a historical analysis.

(A) i, ii and iv (B) i, iii and iv

(C) i, ii and iii (D) i, ii, iii, iv

Ans. (A) i, ii and iv

63. Which of the following falls under Profitability ratios?

(i) General Profitability ratios

(ii) Overall Profitability ratios

(iii) Comprehensive Profitability ratios

(A) i and ii (B) i and iii (C) ii and iii (D) None of the above

Ans. (A) i and ii

64. General Profitability ratios are based on —

(A) Investments (B) Sales (C) A & B (D) None of the above

Ans. (B) Sales

65. Gross Profit ratio is also termed as —

(A) Gross Profit Margin (B) Gross Margin to net sales

(C) Both (A) and (B) (D) All of the above

Ans. (C) Both (A) and (B)

66. While calculating Gross Profit ratio—

(A) Closing stock is deducted from cost of goods sold

(B) Closing stock is added to cost of goods sold

(C) Closing stock is ignored

(D) None of the above

Ans. (C) Closing stock is ignored

67. While calculating Gross Profit, if net profit is given—

(A) It can be converted into gross profit by adding interest to it

(B) It can be converted into Gross profit by adding indirect expenses to it

(C) Both (A) and (B)

(D) None of the above

Ans. (A) It can be converted into gross profit by adding interest to it

68. Gross profit ratio is calculated by—

(A) (Gross Profit/Gross sales)* 100

(B) (Gross Profit/Net sales)* 100

(C) (Net Profit/Gross sales)* 100

(D) None of the above

Ans. (B) (Gross Profit/Net sales)* 100